

Message Text

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43

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FM AMEMBASSY KUWAIT

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AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY TEHRAN

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PASS EXIM BANK FOR CASEY

E.O. 11652: N/A

TAGS: BMEP, EIND: KU

SUBJ: US COMPANIES GIVING KUWAIT STEEL PROJECT CLOSE
ATTENTION

REF: A) KUWAIT 1536, 774 AND 619 (NOTAL) B) USDOC 3138 (NOTAL)

C) STATE 248182 (NOTAL)

SUMMARY: REPS, THREE MAJOR US STEEL FIRMS RECENTLY
VISITED KUWAIT TO EXPLORE OPPORTUNITIES PRESENTED BY FORTH-
COMING STEEL MILL TENDER AND PROPOSED EXPANSION PROJECT TO
FOLLOW. APPEARS LIKELY, AT LEAST, ONE AND PROBABLY TWO OF
COMPANIES WILL BID ON SOME OR ALL PORTIONS OF THE TENDER.
WHILE US COMPANIES VIEWED FIRST STAGE OF PROJECT AS RELATIVELY
INSIGNIFICANT, GIVEN THE LEVEL OF STEEL MILL CONSTRUCTION
ACTIVITY IN THE AREA, ALL THREE WERE INTRIGUED WITH PROSPECTS
FOR FOLLOW-ON WORK HERE. MOST DIFFICULT QUESTION FACING COMPANIES
HAD BEEN MATTER OF REPRESENTATION, WHICH WAS ONLY RESOLVED
BY KUWAITIS AFTER US REPS DEPARTED. ONE COMPANY REP, VP RICHARD
BROWN OF MESTA MACHINE CO. HAD JUST COME FROM CAIRO WHERE HE
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EXPLORED MAJOR EXPANSION OF HELWAN STEEL COMPLEX WITH KEY

OFFICIALS MINISTRIES OF FINANCE AND INDUSTRY AFTER HAVING MET WITH EX-IM BANK PRES., CASEY, IN WASHINGTON. NOW APPEARS THERE EXCELLENT CHANCE FOR US TO WIN SOME MAJOR CONTRACTS CONNECTED WITH KUWAIT STEEL MILL AND SELECTED COMPANIES SHOULD BE NOTIFIED OF RECENT CHANGES RE MATTERS OF REPRESENTATION AND EXPANSION. END SUMMARY.

1. FROM APRIL 30 TO MAY 5, AMBASSADOR AND EMBOFFS MET WITH OFFICIALS THREE LARGE US STEEL FIRMS INTERESTED IN EXPLORING FEASIBILITY THEIR COMPANIES BIDDING ON KUWAIT'S FORTHCOMING STEEL MILL TENDER. VISITORS INCLUDED ROBERT ALBRECHT AND ADEL OSMAN OF SWINDELL BRESSLER, RICHARD BROWN, EXECUTIVE VICE-PRESIDENT OF MESTA MACHINE CO.; AND ROBERT SABA OF USS ENGINEERS; WHO WERE ALL BRIEFED ON SUBJECT PROJECT AT EMBASSY AND MET WITH KEY OFFICIALS CONNECTED WITH STEEL MILL.

2. PROJECT AS OUTLINED IN REFTELS IS RELATIVELY SMALL 400,000 TON ROLLING MILL DESIGNED TO PRODUCE BARS, RODS, AND LIGHT ANGLES. HOWEVER, IN RECENT DAYS MANY CONNECTED WITH PROJECT HAVE BEGUN TO TALK ABOUT A "SECOND STAGE" OF CONSTRUCTION WHICH WOULD CREATE A COMPLEX CAPABLE OF PRODUCING ONE MILLION ADDITIONAL TONS PER ANNUM OF "FLAT PRODUCTS" INCLUDING SHEETS AND PLATES. THIS STAGE WILL REQUIRE FOREIGN PARTNER AND HAS INTRIGUED ALL THREE US COMPANIES, RAISING LIKELIHOOD SOME OF THEM WILL PARTICIPATE IN THE TENDER FOR THE PRESENT MILL EVEN THOUGH FOR NOW IT SMALL POTATOES COMPARED WITH ACTIVITY TAKING PLACE IN NEIGHBORING IRAN, IRAQ, AND SAUDI ARABIA.

3. AS PRESENT MILL WILL BE TENDERED IN FIVE SEPARATE PACKAGES, EACH COMPANY HAS CHOICE TO COMPETE FOR ANY ONE OR ALL PARTS OF THE TENDER. IT NOW APPEARS NEAR CERTAIN SWINDELL-DRESSLER WILL TRY TO WIN CONTRACT FOR DIRECT REDUCTIIN PLANT WITH ITS HYL PROCESS AND WILL ALSO BID FOR THE ROLLING MILLS. HOWEVER, BOTH EMBASSY AND PRESIDENT KUWAIT IRON AND STEEL COUNSELED S-D REPS THAT WOULD HAVE BEST OPPORTUNITY IF THEY SUBMITTED TURN-KEY PROPOSAL COVERING ALL FIVE CATEGORIES OF WORK WHICH ALSO INCLUDES STEEL PLANT AND CONTINUOUS CASTING, INTERPLANT SERVICES AND ELECTRICAL DISTRIBUTION, AND MAINTENANCE CONTRACTS. BEFORE THEY LEFT S-D INDICATED THEY SERIOUSLY CON-

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SIDERING SUCH A STRATEGY, UTILIZING LOCAL SUB-CONTRACTORS FOR THE MORE MINOR WORKS. LIKEWISE, USS ENGINEERS, SABA, INDICATED HE WOULD TRY TO SELL PARENT COMPANY ON PARTICIPATING IN THIS TENDER -- MAINLY BECAUSE OF FOLLOW-ON OPPORTUNITIES IN EXPANSION PLANS MATERIALIZE. MOREOVER, SABA WAS ACCOMPANIES BY TOP-LEVEL INTERNATIONAL OPERATIONS EXECS OF US STEEL WHO EXAMINING OPPORTUNITIES FOR PETROCHEMICAL PROJECTS IN THIS AREA. SABA'S THINKING SEEMED TO BE COMPANY

COULD STRENGTHEN ITS HAND FOR THESE LARGER PROJECTS BY DEMONSTRATING CLEAR INTEREST IN KUWAIT NOW. WHILE US STEEL DOES NOT HAVE SUITABLE DIRECT REDUCTION TECHNOLOGY FOR KUWAIT, IT COULD CONCEIVABLY BID REST OF JOB ALTHOUGH SOME EQUIPMENT SUCH AS ITS CASTING MACHINERY IS DESIGNED FOR PLANTS AT LEAST, TWICE AS LARGE AS KUWAIT'S. BROWN OF MESTA WAS NOT VERY INTERESTED IN THIS STAGE OF PROJECT AND INDICATED AT BEST COMPANY MIGHT SUBMIT TOKEN BID UNDER ONE CATEGORY OF THE WORK. HOWEVER, BROWN WAS ENTHUSIASTIC ABOUT EXPANSION PLANS, GOING SO FAR AS TO URGE KISC OFFICIALS TO CONSIDER AMENDING PRESENT PLANS SUBMITTED BY CONSULTANT JOHN MILES TO PERMIT IMMEDIATE SECOND AND THIRD STAGE EXPANSION PLANS WHICH WOULD ALLOW FOR EVENTUAL CAPACITY OF "20 MILLION TONS." MESTA HAS WORKED CLOSELY WITH USS ENGINEERS AND URGED KUWAITIS TO CONSIDER THEM FOR ALL FUTURE CONSULTING WORK.

4. MAIN QUESTION TROUBLING ALL THREE US COMPANIES WAS ISSUE OF REPRESENTATION. UNDER KUWAITI LAW IT USUALLY NECESSARY ON ALL TENDERS TO HAVE LOCAL REPRESENTATION, BUT SOME OF STRAIGHT ARROWS AMONG KISC'S FOUNDERS WERE HOPING TO AVOID INTERNECINE HAGGLING AMONG COMPANY'S FOUNDERS BY HAVING ALL FOREIGN COMPANIES REGISTERED DIRECTLY WITH KISC. HOWEVER, LOCAL AVARICE WON OUT AND NOW COMMITTEE HAS JUST DECIDED THAT LOCALLY NOTARIZED AGREEMENT BETWEEN FOREIGN FIRMS AND KUWAITI AGENT MUST BE PRESENTED JOHN MILES BEFORE TENDER DOCUMENTS CAN BE DRAWN. COMMITTEE ALSO DECIDED THAT NONE OF 15 ORIGINAL FOUNDERS WILL BE PERMITTED TO ACT AS AGENTS; HOWEVER, IT CAN BE EXPECTED THAT MANY FOUNDERS WILL URGE STEEL COMPANIES TO ASSOCIATE WITH THEIR "FRIENDS," AND WE ASSUME THIS LATTER STIPULATION WILL BE HONORED IN THE BREACH.

5. FOR CAIRO: RICHARD BROWN HAD JUST COME FROM EGYPT WHERE HE CLAIMED TO HAVE MET WITH TOP AIDES OF FORMER INDUSTRY LIMITED OFFICIAL USE

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MINISTER HEGAZY AND THE FINANCE MINISTER, BOTH WHOM HE SAID WERE AWAY DURING HIS VISIT. HE SAID HE HAD PUT FORTH SERIOUS PROPOSALS FOR MAJOR EXPANSION OF HELWAN COMPLEX TO THEM. PRIOR TO TAKING THIS TRIP, BROWN HAD MET WITH EX-IM BANK PRESIDENT CASEY AND SEVERAL LEADING NEW YORK BANKING OFFICIALS. HE EXPLORED POSSIBLE FINANCING ARRANGEMENTS FOR SUCH A PROJECT. HE SAID HE FOUND EX-IM OPEN MINDED ON SUBJECT BUT ASSERTED NEW YORK BANKERS UNWILLING MAKE ANY SUBSTANTIAL LOANS MUCH BEYOND EN-IM FUNDING WITHOUT FIRM GUARANTEE FROM EITHER EX-IM OR ARAB SURPLUS-FUNDS COUNTRIES SUCH AS SAUDI ARABIA. BROWN CLAIMED EGYPTIANS RECEIVED HIS IDEAS WARMLY, AND HE INTENDS TO PURSUE MATTER FURTHER.

6. ACTION REQUESTED: COMMERCE SHOULD IMMEDIATELY RELAY VERBATIM INFO CONTAINED PARA 4, TO ROBERT SABA (412) 391-8115;

ROBERT ALBRECHT OR ADEL OSMAN, (412) 562-7634; AND RICHARD BROWN (412) 461-1900 OR THEIR ASSOCIATES. HOWEVER, UNDER NO CIRCUMSTANCES SHOULD ANY INFO ABOUT POTENTIAL US RIVALS BE GIVEN THESE COMPANIES. COMMERCE MAY ALSO WISH APPRISE SOME OTHER SELECTED COMPANIES ABOUT KUWAIT'S RECENT INTEREST IN LARGE SECOND STAGE EXPANSION.

7. COMMENT: FOR PRESENT APPEARS THERE WILL BE SUFFICIENT US ATTENTION IN THIS PROJECT TO INSURE US GOOD OPPORTUNITIES TO WIN SOME SUBSTANTIAL CONSTRUCTION AND EQUIPMENT CONTRACTS. BESIDES AFOREMENTIONED COMPANIES, KISC GENERAL MANAGER, HUSSAIN AL-JASSEM ATTENDED RECENT STEEL CONFERENCE IN SAUDI ARABIA AND FURTHER APPRISED ARMCO AND LUKENS STEEL ABOUT PROJECT AND WILL HAVE CONSULTANT MILES SEND ARMCO'S FOSTER WHEELER AND ARTHUR MCKEE INVITATIONS TO BID, ALTHOUGH TO BEST OF OUR KNOWLEDGE NEITHER FIRM HAS RECENTLY SENT ANY REPS TO KUWAIT. THOUGHTEST COMPETITION COULD WELL COME FROM W.GERMAN KLOCKNER AND KORFF ENGINEERS WHO HAVE BEEN FOLLOWING THIS PROJECT CLOSELY SINCE ITS INCEPTION.
STOLTZFUS

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